



FSC-475-C

November 18, 1994

910-741-5000  
Winston-Salem, N.C. 27102

TO ALL FIELD SALES PERSONNEL

SUBJECT: REVISED SAVINGS STRATEGY

As you are aware, we recently made some minor, but very important revisions to our savings strategy. I want to take this opportunity to ensure you understand that these are planned, calculated moves. The objective of these changes should be very clear; we are attempting to improve RJR's long-term profitability of the savings category; or simply stated, "make more money." You know by now that you can drive/buy savings volume through heavy discounting. However, in reality, this has a negative impact on our full price business and total RJR profitability. We recognize the risks associated with being more selective or targeted with our new savings "ceiling" strategy, but you must realize it is the right risk to take in order to put us in a position to achieve our 1995 earnings objective.

In the next couple of weeks, you will be attending your 1995 sales meetings -- during these meetings, our savings strategy will be discussed in detail. Our intention is to spend time discussing not only the "what" side of our strategy, but, as importantly, the why. In 1995, it is critical that you understand our objectives and strategies and have the opportunity to ask questions. Our ability to execute the strategy consistently depends upon your level of understanding and commitment.

Listed below are key points to remember on our savings strategy revisions:

- We are not out of money; there is no year-end budget short-fall; instead, this is a strategic move in our best interest.
- Our overall objective is to make money, and, as you know, our savings brands deliver lower margins than our full price brands. Therefore, we must make our savings business as profitable as possible by effectively executing the "ceiling" strategy, growing DORAL and holding RJR's share of the savings category.
- We feel branded savings products can command a price premium vs. lowest price (currently we cannot tell if this is right because branded savings and lowest are often priced the same).

In essence, our objective of holding share of savings and growing DORAL over the long term does not change. If our tactical changes (i.e., ceiling strategy) do not work in the marketplace, we will change them. The issue is balance, between earnings and share. This is very difficult. Our business is very dynamic and competition is changing. You need to understand that we have to be flexible enough to change if we are to accomplish our business objectives while responding to the marketplace and competition. Then, instead of resisting change or feeling it's one change after the other with no reason or rhyme, you will anticipate change and support it in order to capitalize on business opportunities in the marketplace.

I look forward to some very productive and lively discussions at the upcoming meetings.

James V. Maguire  
Senior Vice President - Sales

JVM/kp

"We work for smokers."